

FCC MAIL SECTION

FEB 28 3 32 PM '95
Before the
Federal Communications Commission
Washington, D.C. 20554

DISPATCH

CC Docket No. 93-50

In the Matter of

The Accounting and Ratemaking
 Treatment for the Allowance for
 Funds Used During Construction
 (AFUDC)

REPORT AND ORDER

Adopted: February 13, 1995; Released: February 28, 1995

By the Commission:

I. INTRODUCTION

1. On March 22, 1993, the Commission released a Notice of Proposed Rulemaking¹ ("the Notice"), proposing changes to Part 32,² Uniform System of Accounts ("USOA") for Telecommunications Companies, and Part 65,³ Interstate Rate of Return Prescription Procedures and Methodologies, of our Rules with respect to the proper accounting and ratemaking treatment for Telephone Plant Under Construction ("TPUC") and Allowance for Funds Used During Construction ("AFUDC"). Specifically, we proposed to amend Part 32 to require carriers to capitalize AFUDC for TPUC using a capitalization rate based on average cost of debt. We also proposed to amend Part 65 to allow carriers to include the interstate portion of the TPUC balances in the interstate rate base and to reduce their interstate revenue requirement by the amount of AFUDC capitalized in the current year. Twelve parties filed comments, and five filed reply comments.⁴ This Order amends Parts 32 and 65 of our Rules to adopt the changes as proposed in the Notice.⁵ These changes will become effective six months after a summary of this Order is published in the Federal Register.

¹ Accounting and Ratemaking Treatment for the Allowance for Funds Used During Construction (AFUDC), Notice of Proposed Rulemaking, CC Docket No. 93-50, 8 FCC Rcd 2084 (1993).

² 47 C.F.R. Part 32.

³ 47 C.F.R. Part 65.

⁴ Parties that filed comments and reply comments are listed in Appendix A.

⁵ We also amend Part 36 to conform with the Part 32 and 65 rules changes adopted in this Order.

⁶ Section 32.2000(c) of our Rules, 47 C.F.R. §32.2000(c), requires the telephone company to charge to the telecommunications plant accounts, where applicable, all direct and indirect costs in accounting for construction costs.

⁷ American Telephone and Telegraph Co., Docket No. 19129,

II. BACKGROUND

2. Our accounting rules for telephone companies require all costs associated with acquiring and readying an asset for its intended use to be capitalized as part of the asset's cost.⁶ The interest expense accrued during the period in which the asset is being readied for service, which is commonly referred to as AFUDC, is one of these costs. Parts 32 and 65 of our rules specify the accounting and interstate regulatory treatment for AFUDC. In addition, in Docket No. 19129, the Commission required AT&T and the Bell System to use the prime rate in calculating AFUDC for interstate ratemaking purposes.⁷

3. The Commission has recognized three ways to compensate carriers for their investments in assets during the period in which they are being readied for service:

Capitalization Method. Under this method, TPUC is excluded from the rate base during the construction period, but carriers are allowed to capitalize the interest costs, i.e., AFUDC, during that same time period. When plant is placed into service, the cost of construction, including capitalized AFUDC, is transferred from TPUC accounts to plant in service accounts and included in the rate base. Carriers are permitted to earn a return on the investment in the new plant, including the capitalized interest amount, and the cost of that investment is recovered through depreciation charges over the useful life of the plant.

Rate Base Method. Under this method, TPUC is included in the rate base during the construction period, and interest is treated as an expense during the same time period.

Revenue Requirement Offset Method. Under this method, TPUC is included in the rate base during the construction period and AFUDC is recognized as part of that cost of construction. To prevent double recovery, AFUDC for the current period is treated as a revenue amount for ratemaking purposes. For cost of service companies this credit reduces the carrier's revenue requirement.⁸

4. In 1967, in Docket No. 16258, the Commission required AT&T and the Bell System Companies to use the revenue requirement offset method for interstate ratemaking.⁹ In 1977, in Docket No. 19129, the Commission concluded that because long-term construction projects (i.e., projects under construction for one year or longer) generally benefit only future ratepayers, the costs of such projects should not be recovered from current

Phase II Final Decision and Order, 64 FCC 2d 1, 59-60 (1977) (19129 *Phase II Final Decision and Order*). The prime rate is defined as the lowest rate of interest charged by a lender to its best customers for short-term unsecured loans. The Commission specified in Docket No. 19129 that interest during construction be computed at a compounded annual rate that is based on a 13-month average of the prime rate.

⁸ The revenue requirement offset method was adopted in *American Telephone and Telegraph Co.*, Docket No. 19129, *Interim Decision and Order*, 9 FCC 2d 30, 41-42, *recon.*, 9 FCC 2d 960, 971-972 (1967); and the capitalization and rate base methods were adopted in *Phase II Final Decision and Order*, 64 FCC 2d at 59.

⁹ *American Telephone and Telegraph Co.*, *Interim Decision and Order*, 9 FCC 2d at 41-42, *recon.*, 9 FCC 2d at 971-972.

ratepayers. To implement this policy, the Commission specified the use of the capitalization method to recover the costs incurred in connection with long-term construction projects. At the same time, the Commission directed carriers to compute interest at the prime rate in determining AFUDC. For short-term construction projects (*i.e.*, projects under construction for less than one year), the Commission decided that it was not necessary to distinguish between current and future ratepayers. Accordingly, the Commission specified the rate base method for short-term construction.¹⁰ The procedures adopted in Docket No. 19129 for Bell System ratemaking are still in effect today. In 1978, the Commission amended the USOA to accommodate the Docket No. 19129 ratemaking decisions by creating separate accounts for short- and long-term construction projects.¹¹

5. In 1985 the Commission revisited the accounting for AFUDC in Docket No. 84-469.¹² In that proceeding, the Commission articulated that the USOA should incorporate Generally Accepted Accounting Principles ("GAAP")¹³ to the extent that GAAP is consistent with the Commission's regulatory needs. In implementing that policy, however, the Commission rejected the GAAP standard for the rate at which AFUDC is capitalized. That standard essentially requires the accrual of AFUDC at a rate based on the carrier's actual cost of debt.¹⁴ The Commission decided that it was not necessary to require consistency with GAAP in this case because it concluded that the practical difference between the prime lending rate and the carriers' actual cost of debt would be very minor.¹⁵

6. On January 11, 1991, Ameritech filed a Petition for Rulemaking requesting that the Commission use the prescribed interstate rate of return, instead of the prime rate, to compute AFUDC. A Public Notice soliciting comments

on the petition was issued on February 15, 1991. In reviewing the comments, the Commission determined that accounting and regulatory changes may be necessary for AFUDC. It also concluded that complementary changes in the Commission's treatment of assets during the period in which AFUDC is accrued may also be necessary. Accordingly, the Commission subsequently issued the *Notice* in which it proposed revisions to its current treatment of TPUC and AFUDC.

III. COMMENTS AND DISCUSSION

A. Methods

1. Proposal

7. In the *Notice*, we proposed the revenue requirement offset method for both short- and long-term construction projects because we believed that this method would allow us to adopt accounting that is both consistent with GAAP and fair and reasonable for ratemaking purposes. Of the thirteen commenting parties, three support the proposal,¹⁶ and ten oppose it in varying degrees.¹⁷

2. Comments

8. The Florida PSC and BellSouth state that full adoption of GAAP standards for AFUDC capitalization would be preferable to the current rules. These commenters argue, however, that the revenue requirement offset method is inappropriate for today's telecommunications industry because they believe AFUDC capitalization amounts have little impact for accounting and ratemaking purposes.¹⁸ U S West supports this position.¹⁹ The Florida PSC also argues that the revenue requirement offset method might encour-

¹⁰ American Telephone and Telegraph Co., *Phase II Final Decision and Order*, 64 FCC 2d at 59.

¹¹ Amendment of Part 31, Uniform System of Accounts for Class A and Class B Telephone Companies, *Report and Order*, 68 FCC 2d 902 (1978) (*Amendment of Part 31*). The USOA in Part 31 was replaced by the USOA in Part 32 effective January 1, 1988. The current regulations are contained in 47 C.F.R. §32.2003 (Telecommunications plant under construction-short-term) and 47 C.F.R. §32.2004 (Telecommunications plant under construction-long-term).

¹² Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles (Parts 31, 33, 42, and 43 of the FCC's Rules), *Report and Order*, 102 FCC 2d 964, 976-78, 989 (1985).

¹³ Briefly stated, GAAP is a common set of accounting concepts, standards, procedures and conventions that are recognized by the accounting profession as a whole and upon which most nonregulated enterprises base their external financial statements and reports.

¹⁴ Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost, states:

If an enterprise's financing plans associate a specific new borrowing with a qualifying asset, the enterprise may use the rate on that borrowing.... If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess shall be a weighted average of the rate applicable to other borrowings of the enterprise.

Under GAAP, an enterprise's current accrual for AFUDC cannot exceed the total amount of interest cost it incurs in the period.

¹⁵ Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, *Report and Order*, 3 FCC Rcd 269 (1987), *recon.*, 4 FCC Rcd 1697 (1989) (*Rate Base Reconsideration Order*), *remanded on other grounds sub nom.*, Illinois Bell Tel. Co. v. FCC, 911 F.2d 776 (D.C. Cir. 1990) (*Illinois Bell I*), *Decision on Remand*, 7 FCC Rcd 296 (1991), *aff'd sub nom.*, Illinois Bell Tel. Co. v. FCC, 988 F.2d 1254 (D.C. Cir. 1993) (*Illinois Bell II*). Thereafter, BellSouth and Southwestern Bell raised the AFUDC issue in petitions for reconsideration in the rate base proceeding, Docket No. 86-497. They objected to the use of the prime rate for accruing AFUDC. The Commission declined to address the matter on the merits at that time because the issue was beyond the scope of that proceeding. Illinois Bell appealed, but the D.C. Circuit held that the Commission was on solid ground in refusing to expand the scope of its proceeding and advised Illinois Bell that it should petition to the Commission in the usual manner if it wanted the treatment of AFUDC to be changed. See *Rate Base Reconsideration Order*, 4 FCC Rcd 1697 at 1703.

¹⁶ Ameritech Comments at 1; NYNEX Comments at 2-3; SWBT Comments at 3.

¹⁷ SNET Comments at 2; Wisconsin PSC Comments at 2-6; Missouri PSC Comments at 2; Bell Atlantic Comments at 1; BellSouth Comments at 1; NTCA Comments at 2; MCI Comments at 1; Florida PSC Comments at 2; NECA Comments at 2; U S West Reply Comments at 2.

¹⁸ Florida PSC Comments at 2; BellSouth Comments at 3.

¹⁹ U S West Reply Comments at 2.

age companies to delay the transfer of plant ready for use from the TPUC account to the plant in service account.²⁰ MCI argues that the Commission should continue to employ the capitalization method for long-term TPUC and should adopt it for short-term TPUC as well. MCI argues that this policy would prevent ratepayers from being charged for any investment until it is considered used and useful. The Missouri PSC opposes reliance on GAAP for AFUDC purposes because it believes that wholesale adoption of GAAP as the basis for setting rates may impose an inequitable share of the cost recovery burden on current ratepayers rather than future ratepayers.²¹ SWBT, Ameritech, and NYNEX support the revenue requirement offset method. SWBT argues that this method permits the regulated entity to earn a fair rate of return on its investment by including TPUC in rate base. It states that a company incurs debt costs for both short- and long-term construction projects and that it is appropriate to capitalize these costs.²² Ameritech contends that over 90 percent of its long-term construction projects are completed in less than two years. As a result, at any given time, current ratepayers are very likely to benefit from construction projects when the plant is placed into service.²³ NYNEX asserts that the proposal properly balances the interests of carriers and ratepayers.²⁴

9. Bell Atlantic asserts that capitalizing AFUDC on short-term construction projects would increase the risk of recovering that capital. Bell Atlantic argues that, as the interest costs are capitalized, its recovery is deferred and spread over time, and the carriers might not be able to recover their total investment because of increasing competition and rapid technological changes. Bell Atlantic maintains that this would frustrate our price cap productivity incentives.²⁵ NECA states that it does not oppose adoption of our proposal. NECA, however, is concerned that smaller exchange carriers may incur additional bookkeeping expenses to capitalize interest expenses and may initially experience reduced settlements under the revenue requirement offset method. NECA asks the Commission to allow small carriers to continue using the rate base method for all construction where the amounts are not material in comparison to the additional burden.²⁶ NTCA supports NECA's proposal and states that our AFUDC proposal would also require carriers to keep additional records related to tax timing differences associated with the interest expense. NTCA states that we should allow carriers to capitalize AFUDC but not require it if the financial reporting effect is immaterial.²⁷

3. Discussion

10. We believe that the revenue requirement offset method is the best approach for several reasons. Consistent with the policy established in Docket No. 84-469, this method would incorporate into our accounting rules the methodology for treating AFUDC endorsed by GAAP for both short-term and long-term construction projects. Further, the revenue requirement offset method would give the

carriers an incentive to invest in new plant because both short- and long-term plant under construction and the capitalized AFUDC would be included in rate base and, as a result, carriers would be allowed to earn a rate of return on the total investment. Moreover, under the revenue requirement offset method the amount of AFUDC capitalized is included both in the rate base and in current income for ratemaking purposes. This has the effect of mitigating the increase in the revenue requirement that results from including all TPUC in the rate base. In sum, because other methods lack these advantages, we believe that the interstate ratemaking treatment of interest expense during construction under the revenue requirement offset method is superior to the alternatives.

11. Adoption of the revenue requirement offset method will enable us to assure that carriers have an opportunity to earn the authorized rate of return on the interstate portion of all investments they make in the telephone network, while reducing the amount recovered from ratepayers for assets under construction during the period in which they are under construction. Under this approach, carriers will have an opportunity to earn a return of and on all of their investments in telephone plant, both in service and under construction, because we will allow the inclusion of all interstate TPUC and telephone plant in service in the rate base. To the extent the carrier's earned interstate rate of return exceeds its average cost of debt, the carrier will receive a return on TPUC investment during the current period, subject to applicable Commission sharing requirements and limitations on earnings in excess of the authorized rate of return. When the plant goes into service, the carrier will begin to recover, through rates charged to its customers, the entire investment, including the capitalized AFUDC, in the form of depreciation expense. This recovery will continue until the plant is fully depreciated. In addition, because of the revenue offset, interstate ratepayers will pay very little for any new plant until the plant is placed in service. Finally, using the average cost of debt to calculate AFUDC is consistent with GAAP.

12. We disagree with the assertion of the Florida PSC, BellSouth, and U S West that this method should not be used because AFUDC accruals are immaterial. AFUDC accruals are, in fact, substantial. In 1992, for example, AFUDC accruals for LECs that reported accounting data to the Commission totaled nearly \$100 million, or approximately 0.7 percent of their total reported return.²⁸ Furthermore, in 1992 carriers only accrued AFUDC on long-term construction projects, while our new rules would require AFUDC to be accrued on both short- and long-term construction projects. Since typically LECs have three times as much invested in short-term as long-term construction projects,²⁹ we would expect AFUDC accruals under our proposal to amount to nearly \$400 million or approximately 3 percent of their total return. In addition, we disagree with the Florida PSC's argument that the revenue requirement offset method may encourage companies to

²⁰ Florida PSC Comments at 2.

²¹ Missouri PSC Comments at 2 and 3.

²² SWBT Reply Comments at 3.

²³ Ameritech Reply Comments at 2.

²⁴ NYNEX Comments at 3.

²⁵ Bell Atlantic Comments at 2-3.

²⁶ NECA Comments at 2.

²⁷ NTCA Reply Comments at 2-3.

²⁸ Statistics of Communications Common Carriers 1992/1993 Edition, Table 2.9 (FCC 1993).

²⁹ *Id.*

delay the transfer of plant from the TPUC account to plant in service accounts. On the contrary, the revenue requirement offset method gives carriers the incentive to transfer plant from construction into service as promptly as possible to avoid AFUDC revenue requirement offsets.

13. We disagree with MCI that both short- and long-term TPUC should be excluded from the rate base to prevent current ratepayers from being overcharged. Contrary to MCI's argument, the revenue requirement offset method effectively limits the amount that current ratepayers pay for assets prior to their placement into service. Under the current rules, the largest of the TPUC accounts, short-term TPUC, is included in the interstate rate base and carriers are allowed to earn the authorized rate of return on this amount without any revenue offset. The revenue requirement offset procedure will allow both long-term and short-term TPUC to be included in the rate base, but it will also require the use of the revenue offset for the total current year AFUDC. We acknowledge that in our new policy with regard to all TPUC, as in our prior policy with regard to short-term TPUC, we depart from the used and useful standard by allowing carriers to place plant in the rate base prior to its being placed in service. We believe, however, that this limited additional departure from the used and useful standard will not harm the ratepayers because for carriers as a group during each of the first few years, the revenue offset will exceed the additional revenue requirement associated with the inclusion of long-term TPUC in the rate base. The ratepayers receive the benefits of reduced rates in the initial years of implementation. In future years, the increased return and depreciation expense resulting from the inclusion of plant under construction in the rate base could exceed the amount of interest capitalized. Then the total revenue requirement for carriers as a group would exceed the level that would occur under our present requirements. Although excluding all TPUC from the rate base, as MCI suggests, would avoid this effect, we believe that such an exclusion would be unfair to carriers and that the method we are adopting best balances ratepayer and carrier interests.

14. We agree with the Missouri PSC that we should not "blindly" rely on GAAP if those accounting rules will have adverse regulatory consequences. We have determined in this instance, however, that the revenue requirement offset method of accounting for AFUDC provides adequate ratepayer protection and is consistent with GAAP.

15. We are not persuaded by Bell Atlantic's argument that capitalizing AFUDC on short-term construction projects would increase the risk of recovering its investment. Bell Atlantic has not quantified the amount of increased risk, nor has it provided any evidence to support its statement. Moreover, GAAP requires nonregulated companies to capitalize AFUDC on their short-term construction projects. The method for treating AFUDC adopted in this Order simply puts carriers on equal footing with nonregulated companies. In addition, we believe that our overall approach is fairer to carriers than our prior meth-

od. That is, we have changed the AFUDC rate from the prime rate to the carriers' actual cost of debt and will allow carriers to earn the authorized rate of return on their investment for the entire period for which the capital has been invested.³⁰

16. We do not agree with NECA and NTCA that our proposal will add to the record-keeping burden of carriers. On the contrary, eliminating the accounting distinction between short- and long-term construction projects should reduce the overall record-keeping burden. No longer will carriers have to identify construction projects by the timing of their completion and only accrue AFUDC on specific projects. We also do not agree with NTCA's claims that our rules should be flexible to allow small carriers to use the current rate base method for all construction when the amounts are not material and that our rules should not require carriers to capitalize AFUDC if the effect is immaterial. Allowing carriers such flexibility would result in differences in AFUDC treatment among carriers. We believe that it is important to maintain consistency and uniformity among the carriers' books of accounts so that we can readily compare their regulatory operating results.

B. Capitalization Rate

1. Proposal

17. In Docket No. 19129, the Commission required AT&T and the Bell System to calculate AFUDC for interstate ratemaking purposes by applying the prime rate to the appropriate TPUC balance.³¹ Our Part 32 rules, however, do not specify a capitalization rate to be used for accounting purposes. In the *Notice*, we proposed to require carriers to use their actual cost of debt to compute AFUDC for both accounting and interstate regulatory purposes.

2. Comments

18. The Wisconsin PSC suggests that we use the weighted average cost of capital, rather than the average cost of debt, as the AFUDC capitalization rate.³² It argues that this approach would prevent the shifting of costs associated with future services to current ratepayers.³³ MCI argues that the Commission should retain the prime rate as the AFUDC capitalization rate because it would encourage timely completion of construction projects.³⁴ SWBT argues that generally the prime rate is lower than the carriers' average costs of debt, and, therefore, use of the prime rate would not compensate carriers adequately for the cost of new investments.³⁵

3. Discussion

19. We will require each carrier to use its actual average cost of debt as its capitalization rate.³⁶ This standard is consistent with the requirements of GAAP and it is fair to the carriers. The Wisconsin PSC suggests that we use the average cost of capital (debt and equity) rather than the average cost of debt, to calculate AFUDC. We do not adopt

³⁰ See discussion in Section III.B.

³¹ Docket No. 19129 Phase II Order, 64 FCC 2d at 59.

³² Wisconsin PSC Comments at 3. Wisconsin PSC indicates that this suggestion is based upon the premise that all utility assets are supported proportionately by the entire utility capital

structure.

³³ Wisconsin PSC Comments at 3.

³⁴ MCI Comments at 7.

³⁵ SWBT Reply Comments at 4.

³⁶ If, however, a carrier borrows to finance a specific asset, the carrier can use the rate associated with the borrowing for that asset, subject to the limitations set forth in FASB 34.

this proposal because this approach is inconsistent with our goal of establishing a treatment of AFUDC that is in accordance with GAAP. Wisconsin PSC's proposal would also result in larger amounts being capitalized and recovered from both current and future ratepayers since carriers cost of equity usually exceeds their cost of debt. Under GAAP, interest costs of financing construction are recognized costs of acquiring assets and equity costs are not. Wisconsin PSC's proposal would require the carriers to capitalize equity costs that are not recognized as costs under GAAP, which would clearly violate the accounting tenet of recording assets at cost.

20. We reject MCI's argument that the use of the prime rate is necessary to encourage carriers to expedite construction projects. Our incentive regulation programs as well as those of many of the states furnish ample incentives to carriers to complete their construction projects expeditiously. Prompt completion of these projects will increase their opportunity to bring in new revenue and, thus, increase their profitability. In addition, all carriers, even those that continue under traditional rate of return regulation, will have incentives under our revenue requirement offset method to complete construction in order to avoid the revenue requirement offset.

C. Other Matters

21. As recommended by NECA, we adopt conforming amendments to Part 36 of our Rules because Section 36.222(c)³⁷ refers to Account 2004 which would be eliminated under the adoption of our proposal and to Account 2003 which would be revised. Since these amendments are technical corrections that will not change jurisdictional separations results, neither additional notice and comment nor a Federal-State Joint Board pursuant to Section 410(c) of the Communications Act is necessary.³⁸

22. The amendments discussed herein also affect the reports that carriers file under our Automated Reporting and Management Information System ("ARMIS"). We direct the Chief, Common Carrier Bureau, to revise the affected ARMIS reports to reflect these amendments.

IV. CONCLUSION

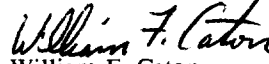
23. For the reasons set forth above, we conclude that our accounting rules for AFUDC capitalization should be consistent with GAAP and that our ratemaking rules with respect to TPUC should be consistent with our accounting rules. Therefore, we amend Parts 32 and 65 of our Rules as set forth in Appendix B. We also make conforming amendments to Part 36 of our Rules.

V. ORDERING CLAUSES

24. Accordingly, IT IS ORDERED that, pursuant to Sections 1, 4(i), 201-205, 219, and 220 of the Communications Act of 1934, as amended, 47 U.S.C. §§151, 154(i) 201-205, 219, and 220, Parts 32, 36, and 65 of our Rules, 47 C.F.R. Parts 32, 36, and 65 ARE AMENDED, as set forth in Appendix B.

25. IT IS FURTHER ORDERED that, pursuant to Section 220(g) of the Communications Act of 1934, as amended, 47 U.S.C. §220(g) and Section 1.427(c) of the Commission's Rules, 47 C.F.R. §1.427(c), the amendments to Parts 32, 36, and 65 of the Commission's Rules, 47 C.F.R. Parts 32, 36, and 65 as set forth in Appendix B, shall be effective six months after publication in the Federal Register.

FEDERAL COMMUNICATIONS COMMISSION


William F. Caton
Acting Secretary

APPENDIX A

List of Respondents

Comments

Ameritech Operating Companies (Ameritech)
Bell Atlantic Telephone companies (Bell Atlantic)
BellSouth Telecommunications, Inc. (BellSouth)
Florida Public Service Commission (Florida PSC)
MCI Telecommunications Corporation (MCI)
Missouri Public Service Commission (Missouri PSC)
National Exchange Carrier Association (NECA)
National Telephone Cooperative Association (NTCA)
New England Telephone and Telegraph Company
and New York Telephone Company (NYNEX)
Public Service Commission of Wisconsin (Wisconsin PSC)
Southern New England Telephone Company (SNET)
Southwestern Bell Telephone Company (SWBT)

Reply Comments

Ameritech
MCI
NTCA
SWBT
U S West Communications, Inc. (U S West)

³⁷ 47 C.F.R. §36.222(c).

³⁸ See 47 U.S.C. §410(c).

APPENDIX B

Parts 32, 36 and 65 of Title 47 of the CFR are amended as follows:

PART 32--UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES

1. The authority citation for Part 32 continues to read as follows:

Authority: Secs. 4(i), 4(j) and 220 as amended; 47 U.S.C. Secs. 154(i), 154(j) and 220 unless otherwise noted.

2. Paragraph 32.2000(c)(2)(x) is revised to read as follows:

§32.2000 Instructions for telecommunications plant accounts.

(c) ***

(2) ***

(x) Allowance for funds used during construction ("AFUDC") provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications Plant Under Construction, and credited to Account 7340. The rate for calculating AFUDC shall be determined as follows: If financing plans associate a specific new borrowing with an asset, the rate on that borrowing may be used for the asset; if no specific new borrowing is associated with an asset or if the average accumulated expenditures for the asset exceed the amounts of specific new borrowing associated with it, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowing of the enterprise. The amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.

3. Section 32.2003 is amended by revising the section heading and paragraphs (a) and (c) to read as follows:

§32.2003 Telecommunications plant under construction.

(a) This account shall include the original cost of construction projects. (Note also §32.2000(c).)

(c) If a construction project has been suspended for six months or more, the cost of the project included in this account shall be transferred to Account 2006, Nonoperating Plant, without further direction or approval

of this Commission. If a project is abandoned, the cost included in this account shall be charged to Account 7370, Special Charges.

4. Section 32.2004 is removed.

5. Section 32.7340 is revised to read as follows:

§32.7340 Allowance for funds used during construction.

This account shall be credited with amounts charged to the telecommunications plant under construction account. (See §32.2000(c)(2)(x).)

PART 36--JURISDICTIONAL SEPARATIONS PROCEDURES; STANDARD PROCEDURES FOR SEPARATING TELECOMMUNICATIONS PROPERTY COSTS, REVENUES, EXPENSES, TAXES AND RESERVES FOR TELECOMMUNICATIONS COMPANIES.

1. The authority citation for Part 36 continues to read as follows:

Authority: 47 U.S.C. Secs. 151, 154(i) and (j), 205, 221(c), 403 and 410.

2. Section 36.101 is revised to read as follows:

§36.101 Section arrangement.

(a) This subpart is arranged in sections as follows:

General:

Telecommunications	
Plant in Service--Account 2001.	36.101 and 36.102.
General Support	
Facilities--Account 2110	36.111 and 36.112.
Central Office	
Equipment--Accounts	
2210, 2220, 2230	36.121 thru 36.126.
Information Origination/Termination	
Equipment--Account 2310	36.141 and 36.142.
Cable and Wire	
Facilities--Account 2410	36.151 thru 36.157.
Amortization Assets--	
Accounts 2680 and 2690	36.161 and 36.162.
Telecommunications	
Plant--Other Accounts 2002 thru 2005	36.171.
Rural Telephone	
Bank Stock.	36.172.
Material and Supplies--	
Accounts 1220, and	
Cash Working Capital	36.181 and 36.182.
Equal Access Equipment.	36.191.

3. Section 36.171 is revised to read as follows:

§36.171 Property held for future telecommunications use--Account 2002; Telecommunications plant under construction--Account 2003; and Telecommunications plant adjustment--Account 2005.

The amounts carried in Accounts 2002, 2003, and 2005 are apportioned among the operations on the basis of the apportionment of Account 2001, Telecommunications Plant in Service.

4. Section 36.222(c) is revised to read as follows:

§36.222 Nonoperating income and expenses--Account 7300.

* * * * *

(c) The portion reflecting allowance for funds used during construction is apportioned on the basis of the cost of Telecommunications Plant Under Construction--Account 2003. The portion reflecting costs for social and community welfare contributions and fees is apportioned on the basis of the apportionment of corporate operations expenses.

PART 65--INTERSTATE RATE OF RETURN PRESCRIPTION PROCEDURES AND METHODOLOGIES

1. The authority citation for Part 65 continues to read as follows:

Authority: Secs. 4, 201, 202, 203, 205, 218, 403, 48 Stat., 1066, 1072, 1077, 1094, as amended, 47 U.S.C. Secs. 154, 201, 202, 203, 205, 218, 403.

2. Section 65.450(d) is revised to read as follows:

§65.450 Net Income.

* * * * *

(d) Except for the allowance for funds used during construction, reasonable charitable deductions and interest related to customer deposits, the amounts recorded as nonoperating income and expenses and taxes (Accounts 7300-7450) and interest and related items (Accounts 7500-7540) and extraordinary items (Accounts 7600-7640) shall not be included unless this Commission specifically determines that particular items recorded in those accounts shall be included.

3. Section 65.820(a) is revised to read as follows:

§65.820 Included items.

(a) *Telecommunications Plant.* The interstate portion of all assets summarized in Account 2001 (Telecommunications Plant in Service) and Account 2002 (Property Held for Future Use), net of accumulated depreciation and amortization, and Account 2003 (Telecommunications Plant Under Construction), and, to the extent such inclusions are allowed by this Commission, Account 2005 (Telecommunications Plant Adjustment), net of accumulated amortization. Any interest cost for funds used during construction

capitalized on assets recorded in these accounts shall be computed in accordance with the procedures in §32.2000(c)(2)(x) of this chapter.